Canadian Grain Commission | Commission canadienne des grains

Quarterly Financial Report:

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs (Unaudited)

For the Period ended June 30, 2012

Canada

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Canadian Grain Commission
Quarterly Financial Report
For the period ended June 30, 2012

1. Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates*, *Supplementary Estimates*, as well as Canada's Economic Action Plan 2012 (Budget 2012). It has been prepared by Canadian Grain Commission (CGC) management as required by section 65.1 of the *Financial Administration Act* and is in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

The Canadian Grain Commission was established in 1912 and is the federal government agency responsible for administering the provisions of the *Canada Grain Act* (CGA).

The CGC's mandate as set out in the CGA is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets."

The CGC's vision is to be "A leader in delivering excellence and innovation in grain quality and quantity assurance, research, and producer protection." The CGC reports to Parliament through the Minister of Agriculture and Agri-Food.

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: **Canada's grain is safe, reliable and marketable and Canadian grain producers are protected**.

The CGC's Program Activity Architecture has five program activities that each contribute to making progress to the sole strategic outcome. The program activities are:

- Quality Assurance Program,
- Quantity Assurance Program,
- Grain Quality Research Program,
- Producer Protection Program, and
- Internal Services.

Further details on the CGC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting (modified cash) and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Budgetary Authorities compares the Department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Authorities is consistent with that in the *Main Estimates* and *Supplementary Estimates*.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through *Appropriations Acts* or through legislation in the form of statutory spending for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-2013, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent Main Estimates tabled in Parliament.

The CGC uses the full accrual method of accounting to prepare and present its annual departmental financial statements included in the Departmental Performance Reports. However, the spending authorities voted by Parliament remain on an expenditure basis (modified cash) of accounting.

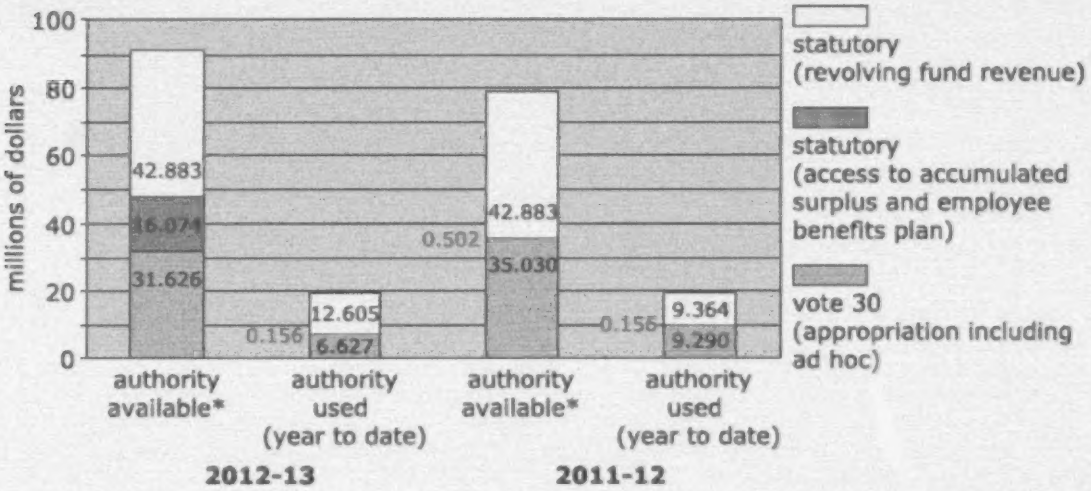
1.3 CGC Financial Structure

The CGC is funded by a combination of an ongoing appropriation, ad hoc appropriation and authority to re-spend fees collected. A revolving fund was set up for the CGC in 1995 with the expectation that the CGC would be largely self-funded through fees for service. However, the CGC's user fees have not increased since 1991, operating costs have continually increased, and annual grain volumes can fluctuate considerably from year to year. As a result, overall cost recovery has fallen from approximately 90 percent in the early 1990s to between 50 and 60 percent today. The CGC's falling cost recovery level has caused the CGC to rely on ad hoc government appropriation since 1999 to fund operations on an annual basis.

The CGC funding structure is based on budgetary authorities that are comprised of both statutory and voted (non-statutory) authorities. The statutory authorities include employee benefit plan authority for appropriation funded positions and the CGC revolving fund authority which allows the CGC to re-spend fees that it has collected. The voted authority is Vote 30 – Program Expenditures that includes annual appropriation authority and any ad hoc appropriation authority for the fiscal year.

2. Highlights of Fiscal Year to Date

This section highlights any significant items that affected the year-to-date results and/or contributed to the net change in resources available for the year and actual expenditures and should be read in conjunction with the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object* which can be found at the end of this report.



* Authority available based on amounts approved through the Estimates process. Amounts detailed in Statement of Authorities.

2.1 Authority Available Analysis

As reflected in the *Statement of Budgetary Authorities*, the department's total authority available for use (net of Revolving Fund revenue) in the fiscal year as at June 30, 2012 is $47.7 million, as compared to $35.5 million as at June 30, 2011. The increase of 34.2% ($12.168 million) can be attributed to the following changes in the CGC funding source elements:

1. Through Budget 2012, the CGC received a decrease of $3.4 million in its ad hoc appropriation authority for 2012-13. Budget 2012 identified ad hoc appropriation authority of $26.8 million for 2012-13. Budget 2010 identified ad hoc appropriation authority of $30.2 million for 2011-12.

2. The CGC received an increase of $15.5 million in its access to accumulated surplus for 2012-13 over the same period last year. Budget 2012 identified that the CGC should seek authority to access a portion of its accumulated surplus to support its operations in the amount of $15.5 million for 2012-13. The CGC was granted this authority effective April 1, 2012. Budget 2010 identified that the CGC should seek authority to access a portion of its accumulated surplus to

support its operations in the amounts of $8.5 million for 2011-12. The CGC was granted this authority in October, 2011.

Total available for use reflected in the *Departmental Budgetary Expenditures by Standard Object* differs from the revolving fund gross revenues as stated in both *Main Estimates* and the *Statement of Budgetary Authorities* due to the differences in budgetary authorities and planned spending. Planned spending forecasts re-spendable revenues of $37.626 million based on projected grain volumes of 50.6 million tonnes, while Main Estimates reflect the authority limit to re-spend revenue of $42.883 million in 2012-13.

2.2 Authority Used Analysis

As reflected in the *Departmental Budgetary Expenditures by Standard Object*, the department's total budgetary expenditures in the fiscal year as at June 30, 2012 is $6.783 million, as compared to $9.326 million as at June 30, 2011. The decrease of 27.3% ($2.543 million) can be attributed to the timely receipt of fee revenue. With the delay in the receipt of fee revenues due to the Canada Post strike, the CGC use additional appropriation to cover the costs of operations.

Total expenditures in the quarter as at June 30, 2012 are $19.388 million as compared to $18.690 million as at June 30, 2011. The increase of 3.7% ($0.698 million) can be attributed to the following significant variances:

1. Personnel expenditures increased by 5.1% ($0.788 million) as compared to year to date last year as a result of expected contractual increases to salary levels for expired collective agreement settlements.

2. The Departmental Budgetary Expenditure by Standard Object shows an increase in total rental expenditures of 38.5% (0.382 million) as compared to the year to date last year. Of this increase, 26.0% (0.258 million) resulted from a reclassification of repair and maintenance expenditures which is offset by an equivalent reduction in repair and maintenance expenditures.

As reflected in both the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object*, overall expenditures are consistent between the quarters.

3. Risks and Uncertainties

The CGC receives funding through both voted appropriations and fees related to the handling of grain. Service fee revenue is largely based on grain volumes handled—a volume which fluctuates from year to year. Current ongoing authorities provide identified funding for approximately 50% of the resource requirement for the CGC.

The absence of a stable funding formula creates risk for the organization in a number of ways.

There is the risk that lack of funding will negatively affect the ability to make decisions, and to fully deliver the mandate. This is not only felt through a potential shortage of qualified staff, but in the risk that the CGC's scientific technological capacity will not keep pace with the evolving needs of the grain industry. To address these risks the CGC must ensure that resources are targeted toward existing and emerging grain quality and safety issues, and that capital budget allocations are sufficient to acquire equipment necessary to address international standards.

Additionally, there is a risk that aging infrastructure will lead to increased maintenance costs which cannot be managed due to fiscal restraints. To address this risk, the CGC has identified the expected life cycle of all facilities and has created a long term investment plan that identifies required upgrades to facilities, complete with cost assessments that justify the recommended investment in renewal. The CGC has allotted additional resources in 2012-13 to begin addressing this concern.

To address the CGC's funding challenge, the organization has consulted on proposals to update its user fees and has also developed a proposal for a sustainable funding model. The projected next steps are that the Minister of Agriculture and Agri-Food will table the user fees proposal in both houses of Parliament. Subsequently, the CGC will seek approval of a new fee schedule from the Governor in Council. The CGC is currently assessing options to ensure appropriate funding is available to meet operational and staffing requirements.

The revolving fund is utilized as effectively as possible, including planning for and accommodating a potential 20 percent swing in projected grain volumes during budgeting. The annual budget is also re-profiled through the year to deal with shifting needs and priorities that have arisen.

4. Significant Changes to Operations, Personnel and Programs

Effective July 9, 2012, Brian Brown become Acting Chief Financial Officer.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

The CGC is unaffected by the savings measures as announced in Budget 2012.

Another measure referenced in Budget 2012 includes funding to support improving conditions for business investment, Budget 2012 provided $44.0 million over the next 2 years for the CGC to transition to a sustainable funding model.

To address the CGC's funding challenge, the organization has consulted on proposals to update its user fees and has also developed a proposal for a sustainable funding model. The projected next steps are that the Minister of Agriculture and Agri-Food will table the user fees proposal in both houses of Parliament. Subsequently, the CGC will seek approval of a new fee schedule from the Governor in Council. The CGC is currently assessing options to ensure appropriate funding is available to meet operational and staffing requirements.

Approved by:

Elwin Hermanson
Chief Commissioner
Winnipeg, Manitoba
August 15, 2012

Brian Brown
Acting Chief Financial Officer
Winnipeg, Manitoba
August 15, 2012

Statements of Budgetary Authorities (Unaudited)

For the period ended June 30, 2012

(in thousands of dollars)	Fiscal Year 2012-13			Fiscal Year 2011-12		
	Total available for use for the year ending March 31, 2013*	Used during the quarter ended June 30, 2012	Year-to date at quarter end	Total available for use for the year ending March 31, 2012*	Used during the quarter ended June 30, 2011	Year-to date at quarter end
Vote 30						
Appropriation including Ad hoc	$31,626	$ 6,627	$ 6,627	$ 35,030	$ 9,290	$ 9,290
Statutory Authorities:						
Revolving Fund Gross Expenditures	58,335	12,605	12,605	42,763	9,244	9,244
Revolving Fund Gross Revenues	(42,883)	(12,605)	(12,605)	(42,883)	(9,364)	(9,364)
Revolving Fund Net Expenditures	$ 15,452	$ 0	$ 0	($ 120)	($ 120)	($ 120)
Employee Benefit Plan	622	156	156	622	156	156
Total Statutory Authorities	16,074	156	156	502	36	36
Total Budgetary Authorities	47,700	$ 6,783	$ 6,783	$ 35,532	$ 9,326	$ 9,326

** Includes only Authorities available for use and granted by Parliament at quarter-end*

Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (unaudited)

For the period ended June 30, 2012

(in thousands of dollars)	Fiscal Year 2012-13			Fiscal Year 2011-12		
	Total available for use for the year ending March 31, 2013*	Expended during the quarter ended June 30, 2012	Year-to date at quarter end	Total available for use for the year ending March 31, 2012*	Expended during the quarter ended June 30, 2011	Year-to date at quarter end
Expenditures:						
Personnel	$ 65,148	$ 16,313	$ 16,313	$ 60,405	$ 15,525	$ 15,525
Transportation and communication	4,356	828	828	3,350	861	861
Information	213	21	21	93	24	24
Professional and special services	2,998	595	595	2,687	691	691
Rentals	4,672	1,374	1,374	3,859	992	992
Repairs and Maintenance	968	-50	-50	964	248	248
Utilities, materials and supplies	1,801	180	180	671	172	172
Acquisition of machinery and equipment	4,753	121	121	684	176	176
Other Subsidies and payments	417	6	6	2	1	1
Total Expenditures	$ 85,326	$ 19,388	$ 19,388	$ 72,715	$ 18,690	$ 18,690
Revolving Fund Revenue (To be credited to Vote)	(37,626)	(12,605)	(12,605)	(37,183)	(9,364)	(9,364)
Total Budgetary Authorities	$ 47,700	$ 6,783	$ 6,783	$ 35,532	$ 9,326	$ 9,326

** Includes only Authorities available for use and granted by Parliament at quarter-end*

Due to rounding, totals may not add to totals shown.